

Internal Revenue Service
District Director

Department of the Treasury

P. O. Box 2508
Cincinnati, OH 45201

Date: MAY 9 4 1990

Employer Identification Number:
[REDACTED]

Person to Contact:
[REDACTED]

Telephone Number:
[REDACTED]

REMAILED 05-24-90

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(7) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code and we have concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1120.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe that it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues". The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not

[REDACTED]

one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If we do not hear from you within the time specified, this will become our final determination.

Sincerely yours,

[REDACTED]
District Director

Enclosures: 3

Enclosure I
Reasons for proposed denial of exempt status

Information submitted with your application shows you were incorporated [REDACTED]. Your Articles of Incorporation state that your purpose is to promote aviation education and build experimental aircraft.

Your Bylaws state that your purposes are to:

- a. Promote and encourage the sport and hobby of recreational aviation.
- b. Cooperate with and assist governmental agencies in the development of programs relating to aviation activities.
- c. Promote and encourage aviation safety in the design, construction, and operation of all types of aircraft.
- d. Encourage and engage in research for the improvement and better understanding of aviation and the science of aeronautics.
- e. Foster, promote and engage in aviation education.
- f. Promote and encourage grass roots efforts relating to aviation research and development.

Membership is available to any person who is of good moral character and a member of [REDACTED] or its subgroups. Spouses and dependents are also eligible for membership.

You rent facilities for your monthly meetings from the City of [REDACTED]. Your activities consist of an annual fly-in breakfast, open to members and nonmembers, which draws recreational pilots from around the area. There is no admission charge to participate but income is received from the sale of food and drinks. A fly-in raffle is held in conjunction with the breakfast with cash prizes given. Raffle tickets are sold to members who dispense them as they see fit. You sponsor occasional safety seminars in cooperation with the [REDACTED] at your monthly meetings. You publish a monthly newsletter. At some of your meetings you have hands-on workshops where people can actually do some of the types of things needed to build an airplane. You also sponsor a one day seminar and workshop for young people with hands-on type demonstrations and workshops to promote aviation. You sell hats, t-shirts, and calendars. Your members purchase the calendars and dispense them as they see fit. You conduct an annual Christmas party and chili supper, and occasional Sunday morning flight or drive for breakfast at a nearby airport. Notices of your meetings are published in a local newspaper. The general public is welcome to participate in your meetings and activities. [REDACTED] percent of your total time is devoted to the Christmas party, chili supper, Sunday morning breakfast, annual fly-in breakfast and raffle, monthly meetings and the publication of your newsletter.

The financial data you submitted shows expenditures are made for rent, utilities, the purchase of hats, t-shirts, and calendars, advertising, and expenses related to the fly-in. Your financial statements for the past four tax years reveal the following sources and amounts of income. Related income includes calendar, hat and t-shirt sales, fly-in receipts, and raffle receipts.

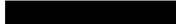
Contributions	\$	\$	\$	\$
Membership dues				
Related income				
Interest				
Gross receipts	\$	\$	\$	\$
Amount of nonmember income				
Percentage of nonmember income to gross receipts:				
Interest income	%	%	%	%
Nonmember income	%	%	%	%
Total nonmember income	%	%	%	%

Section 501(c)(7) of the Code provides for the exemption from Federal income tax of clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Regulations states that the exemption provided by section 501(a) of the Code for an organization described in section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not apply to any club if any part of its net earnings inure to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Section 1.501(c)(7)-1(b) of the Regulations states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation and other non-profitable purposes, and is not exempt under section 501(a) of the Code.

Revenue Procedure 71-17, 1971-1 C.B. 683, modified by Public Law 94-568, 1976-2 C.B. 596, sets forth limitations on the extent to which nonmembers may use a club's facilities and participate in activities which it sponsors. The Committee Reports accompanying Public Law 94-568 (Senate Report No. 94-1318, 94th Congress, 2d Session, 1976-2

 C.B. 597) provide that a social club may receive up to 35 percent of its gross receipts, including investment income from sources outside its membership without losing exemption, provided that not more than 15 percent of gross receipts are derived from nonmember use of club facilities or services. Where a social club permits nonmembers to use its club facilities and receives 15 percent of its gross receipts from these nonmember sources, it may receive only up to 20 percent of its gross receipts from investment income.

In Revenue Ruling 65-63, 1965-1 C.B. 240, a nonprofit organization that, in conducting sports car events for the pleasure and recreation of its members, permitted the general public to attend such events for a fee on a recurring basis and solicited patronage by advertising, was held not exempt under section 501(c)(7).

Information you submitted indicates that you solicit public patronage of your activities by placing ads in local newspapers. Your financial statements indicate that income from participation in your activities by nonmembers has consistently exceeded the 15 percent guidelines as set forth in Rev. Proc. 71-17, modified by Public Law 94-568. Therefore, we propose to deny your request for recognition of exemption from Federal income tax under section 501(c)(7) of the Code.